

Message Text

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PAGE 01 LAGOS 01248 081156Z

21

ACTION AF-06

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R 071625Z FEB 75

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 7890

INFO AMEMBASSY COTONOU

AMCONSUL KADUNA

AMEMBASSY NIAMEY

AMEMBASSY NDJAMENA

AMEMBASSY YAOUNDE

AMCONSUL IBADAN

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E.O. 11652: N/A

TAGS: ENRG, NI

SUBJECT: OIL MARKETING SYSTEM INADEQUATE TO SERVE NIGERIA

REF: LAGOS 0336

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SUMMARY: REFINERY SHUT-DOWN FOR ROUTINE MAINTENANCE IS LATEST IN SERIES OF PROBLEMS INTERRUPTING NORMAL DISTRIBUTION OF PETROLEUM PROJECTS IN NIGERIA. ALTHOUGH IMPORTS AVAILABLE (AT A PRICE), TRANSPORT BOTTLENECKS AND EXPLODING CONSUMPTION, COMPOUNDED BY SMUGGLING, HOARDING, AND PROFITEERING, WILL MOST PROBABLY PREVENT DISTRIBUTION FROM RETURNING FULLY TO NORMAL FOR FORESEEABLE FUTURE. FOREIGN-OWNED OIL MARKETING COMPANIES
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PAGE 02 LAGOS 01248 081156Z

INCREASINGLY CRITICIZED BY PUBLIC AND PRESS, BUT SHORT AND LONG

TERMS SOLUTIONS REQUIRE GOVERNMENT ACTION. END SUMMARY.

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1. STRIKING TRUCK DRIVERS CAUSED SHORTAGE OF PETROLEUM PRODUCTS (POL) IN ALMOST ALL PARTS OF NIGERIA IN MED-JAMUARY (REFTEL). MAJOR EFFORT SINCE THEN TO DISTRIBUTE PRODUCTS BY ROAD AND RAIL HAS FAILED, HOWEVER, TO ELIMINATE ALL SHORTAGES, ESPECIALLY IN SCATTERED AREAS OF THE NORTH AND EAST. PROBLEM OS SUPPLY IS COMPOUNDED BY SMUGGLING (SINCE CONTROLLED RETAIL PRICE IN NIGERIA--58.5 CENTS PER U.S. GALLON OF PREMIUM GASOLINE--IS LOWER THAN IN NEIGHBORING COUNTRIES), HOERDING (SINCE DEALERS AND CONSUMERS SEEK TO PROTECT THEMSELVES AGAINST REPEATED DISRUPTIONS), AND PROFITEERING (SINCE CUSTOMERS CAN BE FORCED TO PAY MORE THAN THE LEGAL PRICE). EVACUATION OF PRODUCTS FROM THE COMPANIES' MAJOR TERMINALS AT APAPA (LAGOS) HAS IN FACT REDUCED MOST OF THEIR STOCKS TO EMERGENCY LEVELS OR BELOW.

2. BAD SITUATION MADE WORSE BY SCHEDULED SHUT-DOWN FEBRUARY 1 OF NIGERIA' ONLY REFINERY FOR ROUTING MAINTENANCE WHICH ALL REFINERIES UNDERGO PERIODICALLY. MAINTENANCE WAS DUE IN 1974, HAD ALREADY BEEN POSTPONED BECAUSE OF SHORTAGES, AND COULD NOT BE FURTHER DELAYED. DISTRIBUTION OF STOCKS STILL AT THE PORT HARCOURT REFINERY (50,600 TONS AS OF FEBRUARY 4 NOT INCLUDING LPG AND RESIDUAL FUEL OIL) AND PERFORMANCE OF MAINTENANCE WITHIN THE 28 DAYS ALLOWED DELAYED BY STRIKE OF REFINERY WORKERS JANUARY 30-FEBRUARY 1 AND WOULD BE MADE UNCERTAIN IF STRIKE RESUMES.

3. OIL COMPANIES ANTICIPATED REFINERY SHUT-DOWN BY INCREASING PRODUCT IMPORTS, BUT SINGLE JETTY FOR UNLOADING TANKERS AT APAPA CANNOT HANDLE PRESENT VOLUME. ONE TANKER IS ALONGSIDE, MAXIMUM PUMPING RATE IS 300 TONS PER HOUR (OFTEN MUCH LESS), AND THE RPT TEN TANKERS CONTAINING 80-120,000 TONS NOW WAITING TO UNLOAD. JETTY AT REFINERY IN PORT HARCOURT IS SUPPOSED TO RECEIVE ONLY EMPTY TANKERS (ESPECIALLY SINCE IT WAS WEAKENED BY COLLISION LAST YEAR), BUT ACCORDING TO ONE REPORT SHELL (WHICH IS PART-OWNER OF REFINERY) WILL ATTEMPT DISCHARGE IMPORTS THERE NEXT WEEK. OTHER NIGERIAN PORTS (CALABAR, WARRI, BURUTU, LIMITED OFFICIAL USE

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PAGE 03 LAGOS 01248 081156Z

SAPELE) CAN RECEIVE SMALL TANKERS, BUT LACK OF STORAGE FACILITIES PRECLUDES POSSIBILITY OF THEIR HELPING TO RELIEVE NATIONAL PROBLEM.

4. OIL COMPANIES CONCLUDE THAT, AT LEAST FOR DURATION OF REFINERY SHUT-DOWN, TEMPORARY SHORTAGES WILL RECUR THROUGHOUT INTERIOR AND POSSIBLY ALSO IN LAGOS. INTERRUPTION OF INTER-NATIONAL FLIGHTS FROM IKEJA (LAGOS) AND KANO AIRPORTS NOT FORE-

SEEN AT THIS TIME.

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5. NIGERIAN PRESS AND PUBLIC NATURALLY BLAME THE SEVEN OIL MARKETING COMPANIES FOR THE UNSATISFACTORY STATE OF POL DISTRIBUTION, BUT THE FACTS OF THE MATTER ARE NOT PUBLICLY KNOWN. ACCORDING TO THE COMPANIES, GOVERNMENT OFFICIALS HAVE BEEN REPEATEDLY TOLD ABOUT BOTTLENECKS (SUCH AS THE CONGESTION AT THE JETTY IN APAPA, THE TURN-AROUND TIME OF RAIL CARS, AND THE DELAY IN ISSUING IMPORT LICENSES), BUT THE DIFFERENT MINISTRIES INVOLVED HAVE RARELY TAKEN THE DECISIONS REQUIRED FOR SHORT-TERM RELIEF OR LONG-TERM SOLUTIONS.

6. THE INDUSTRY ITSELF FACES TWO MAJOR DILEMMAS: SINCE RETAIL PRICES WERE DETERMINED BEFORE THE ENERGY CRISIS OF OCTOBER 1973, ALL FUEL IMPORTED BY THE COMPANIES IS SOLD AT A LOSS (14-17 CENTS PER U.S. GALLON ACCORDING TO ONE COMPANY). A JOINT REPRESENTATION WAS MADE TO THE FMG IN NOVEMBER 1974, BUT NO ACTION HAS YET BEEN TAKEN. THE OTHER DILEMMA IS THE UNCERTAINTY STILL FACING THE COMPANIES BY THE INTENTION ANNOUNCED BY THE FMG TWO YEARS AGO TO NATIONALIZE A MAJOR PORTION (BUT NOT ALL) OF THE INDUSTRY. A RECENT REFERENCE IN THE PRESS TO THE FACT THAT THE FMG HAS NEGOTIATED (BUT NOT YET IMPLEMENTED) A 60 PERCENT ACQUISITION OF THE BIGGEST COMPANY, SHELL NIGERIAN LIMITED, CAUSED ONE EDITORIALIST TO WRITE THAT ALL COMPANIES SHOULD BE TAKEN OVER 100 PERCENT TO END THE SHORTAGES.

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7. WHOLE SITUATION IS HORRIBLY COMPOUNDED BY FANTASTIC RATE OF GROWTH OF CONSUMPTION WHICH DURING MUCH OF 1974 WAS RUNNING LIMITED OFFICIAL USE

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PAGE 04 LAGOS 01248 081156Z

30 PERCENT AHEAD OF ONE YEAR EARLIER. ALMOST EVERYTHING (E.G., REDUCED DUTIES ON AUTOMOBILES, UDOJI PAY INCREASES, FAVORABLE HARVESTS) CONSPIRES TO INCREASE CONSUMPTION. AVERAGE RATE FOR 1974 WAS 52,000 BARRELS PER DAY, WHICH IS ROUGHLY EQUIVALENT TO 270 TONS PER HOUR.

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